



THE Æ RULES  
FOR TRADING ON THE ACTUARIALS EXCHANGE

JANUARY 12, 2005

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*Preamble: The AE Rules, covering exchange participations and activities, is the first of four legally-binding documents contained in the Quartet. The second is The AE Clearinghouse Terms, Conditions, and Procedures; the third is the Rules of Products and Electronic Services, hereinafter referred to as the RoPES; the fourth is the OmniGlossary.*

*The Actuarials Exchange and The AE Clearinghouse reserve the right to make any necessary changes to any document in the Quartet. Notices of these changes shall be published and distributed to Member Firms for review in a numbered and dated official AE Circular.*

*The dates of the latest amendments shall be listed at the end of the amended paragraph and shall refer to a numbered and dated official AE Circular.* Last Amended AE Circular 005, Dec 22, 2004

*If any guidance sections or illustrations conflict in any way with the written contents of these AE Rules, The AE Clearinghouse Terms, Condition, and Procedures, the RoPES, or the OmniGlossary, the written text shall have ultimate authority.*

## ARTICLE I

### GOVERNANCE OF THE ACTUARIALS EXCHANGE

#### SECTION 1: REGULATORY STATUS – EXEMPT BOARD OF TRADE

- (i) On January 9, 2004, The Actuarials Exchange provided the **Commodity Futures Trading Commission** (CFTC) with a Notice of Election as an **Exempt Board of Trade** within the meaning of the **Commodity Futures Modernization Act of 2000** (CFMA), as amended. On January 23, 2004, the CFTC provided The Actuarials Exchange with an Acknowledgement of the Notice of Election, further requiring The Actuarials Exchange to comply with all provisions for the legal exemption set forth in the CFMA, and to comply with all regulations adopted by the CFTC to effectuate those provisions.
- (ii) The Actuarials Exchange shall provide trading facilities only to certain **qualified eligible contract participants (QECP)**, who are engaged in trading certain **excluded commodities**, in accordance with the Commodity Futures Modernization Act of 2000, as amended, and as further provided in these **AE Rules**.
- (iii) The Actuarials Exchange shall only clear derivatives and other financial instruments at a **Derivatives Clearing Organization (DCO)** whose good-standing is duly recognized, designated, and registered with the CFTC.

#### SECTION 2: CLASSES OF EQUITY INTEREST

**The Actuarials Exchange, LLC**, incorporated in January 2000 in the State of Illinois, shall be owned by natural and artificial persons holding equity interests, who may not engage in any trading activities on The Actuarials Exchange, and who may not engage in, or compete against, the commercial trading interests of any **Member Firm** or **Trading Account**.

#### SECTION 3: MANAGEMENT

##### (i) **Chief Executive Officer**

The business and affairs of The Actuarials Exchange shall be managed by the Chief Executive Officer of The Actuarials Exchange. The Chief Executive Officer may adopt new rules, amend existing rules, or repeal old rules for The Actuarials Exchange at any time, according to the procedures in Article VI.

(ii) **President**

The Chief Executive Officer shall appoint a President, who shall be responsible for day-to-day Exchange activities, and ensure delivery of Actuarials Exchange services to Member Firms. The President shall act as chief liaison to the business professionals at Member Firms, as well as with all other agents of, or vendors to, The Actuarials Exchange, and other such duties.

(iii) **Chief Compliance Officer**

The Chief Executive Officer shall appoint a Chief Compliance Officer, who shall serve as Chief Compliance Officer for both The Actuarials Exchange and The AE Clearinghouse. The Chief Compliance Officer shall ensure that The Actuarials Exchange and The AE Clearinghouse are in compliance with all applicable laws and regulations of the United States, and that the Member Firms, Trading Accounts, and **Authorized Traders** are acting in compliance with the AE Rules and The AE Clearinghouse **Terms, Conditions, and Procedures**. The Chief Compliance Officer shall be an **Authorized Compliance Officer** and shall appoint other Authorized Compliance Officers as necessary. The Chief Compliance Officer shall also interpret the **Quartet of legally-binding documents** as needed, but shall defer to the CEO of The Actuarials Exchange and the Chief Executive Officer of The AE Clearinghouse, on any question regarding such interpretation.

(iv) **Chief of Operations**

The Chief Executive Officer shall appoint a Chief of Operations, who shall serve as Chief of Operations for both The Actuarials Exchange and The AE Clearinghouse. The Chief of Operations shall provide efficient and timely support of all compliant activities on The Actuarials Exchange and The AE Clearinghouse, including activities supporting order entry, trade matching, and position confirmation for Member Firms, Trading Accounts, and Authorized Traders at The Actuarials Exchange, and provide operational support of AE Clearinghouse activities.

**SECTION 4: CONFIDENTIALITY AND INTEGRITY**

- (i) No officer or employee of The Actuarials Exchange shall use or disclose material, non-public information, obtained as a result of Member Firm participation with The Actuarials Exchange or The AE Clearinghouse, for any purpose other than the necessary performance of official duties. Official duties shall include responding to any inquiry by a self-regulatory organization, linked clearinghouse, representative of a sovereign, federal, or state government, or, responding to a court of competent jurisdiction under such governments.
- (ii) Every officer or employee of The Actuarials Exchange or The AE Clearinghouse shall fully disclose to The Actuarials Exchange and The AE Clearinghouse of any family relationship that is known to be engaged in trading activities on The Actuarials Exchange, and shall be removed from enforcement of these AE Rules for so long as such a party in interest is still so engaged.
- (iii) A party in interest shall be deemed to have a family relationship with an officer or employee of The Actuarials Exchange or The AE Clearinghouse, if such person is a spouse, former spouse, parent, stepparent, child, stepchild, sibling, stepbrother, stepsister, grandparent, grandchild, uncle, aunt, nephew, niece or in-law
- (iv) No officer or employee of The Actuarials Exchange or The AE Clearinghouse shall trade or clear, or conspire to trade or clear, any kind of financial contract whose value or payoff function is related to, or correlated to, financial instruments offered on The Actuarials Exchange.

Member Firms at The AE Clearinghouse. Every Member Firm of Good-Standing at The Actuarials Exchange must remain a Member Firm of Good-Standing at The AE Clearinghouse.

- (iii) A Member Firm must be a qualified eligible contract participant who can act on behalf of a customer Trading Account, or act on behalf of its own Trading Account. A Member Firm must ensure that every Trading Account of a Member Firm is controlled by, or controlled on behalf of, a qualified eligible contract participant, as defined in these AE Rules. A Member Firm shall fully and frankly communicate to the Authorized Compliance Officer the name and direct contact information of any natural person who controls, or benefits from, the assets of each enumerated Trading Account, to The Actuarials Exchange or The AE Clearinghouse.
- (iv) Member Firm rights on The Actuarials Exchange shall be limited to executing trades through Trading Accounts on electronic facilities of The Actuarials Exchange, and clearing those trades through electronic facilities of The AE Clearinghouse, jointly called the **AE System**.
- (v) Member Firms may not obtain, or conspire to obtain, any equity interest in The Actuarials Exchange or in The AE Clearinghouse.
- (vi) Member Firms shall not gain any governance voting rights on any matter concerning the management, rules, or policies of The Actuarials Exchange or The AE Clearinghouse, but shall have the opportunity to review any proposed amendments to the Quartet of legally-binding documents before they shall be made binding, confer with officers of The Actuarials Exchange and AE Clearinghouse, and jointly determine whether such amendments are consistent with further Member Firm participation.
- (vii) Member Firm access to The Actuarials Exchange and The AE Clearinghouse may not be transferred, assigned, sold, or leased to any outside party, except as directed by the Authorized Compliance Officer, under circumstances provided for in the Quartet of legally-binding documents.
- (viii) All Trading Account positions of Member Firms shall be cleared at a Derivatives Clearing Organization, whose good-standing is duly recognized and fully regulated by the CFTC. Such a Derivatives Clearing Organization shall be referred to as The AE Clearinghouse.
- (ix) A Member Firm shall be financially and legally responsible for any and all activities, behaviors, and obligations at The Actuarials Exchange and The AE Clearinghouse undertaken by: 1) a Member Firm agent or employee; 2) an Authorized Trader controlling a proprietary or customer account, or; 3) an Authorized Support Person servicing a proprietary or customer account.
- (x) A Member Firm, Trading Account, Authorized Trader and Authorized Support Person shall recognize and protect the proprietary interest of The Actuarials Exchange and The AE Clearinghouse in its own market and clearing data, and shall distribute such market and clearing data only to Authorized Traders and Authorized Support Persons.
- (xi) A Member Firm is required to provide a Default Protection Facility to protect The AE Clearinghouse and other Member Firms from the prospect of Member Firm default. Last Amended AE Circular 005, Dec 22, 2004

#### **SECTION 4: AUTHORIZED TRADERS**

Authorized Traders shall be natural persons authorized to make trades on behalf of Trading Accounts under the domain of the Member Firm. A Member Firm shall fully and frankly communicate to the Authorized Compliance Officer the name and direct contact information of any and all Authorized Traders who may execute trades for Trading Accounts, and ensure that no Authorized Traders are engaged in operational, compliance, or money wire support activities with respect to Trading Accounts. No Authorized Trader shall engage in any direct communications with any employees or agents acting on behalf of The AE Clearinghouse.

**SECTION 5: AUTHORIZED SUPPORT PERSONS**

Authorized Support Persons shall be natural persons who are authorized to provide operational, compliance, or money wire support activities with respect to one or more Trading Accounts at the Member Firm, and who engage in direct communications with The AE Clearinghouse to support the clearing of trades at The Actuarials Exchange. A Member Firm shall fully and frankly communicate to the Authorized Compliance Officer the name and direct contact information of any and all Authorized Support Persons who may be so engaged.

3. an investment company with total net assets exceeding \$500 million subject to regulation under the Investment Company Act of 1940, or, a foreign person performing a similar role or function subject as such to foreign regulation (regardless of whether each investor in the investment company or the foreign person is itself an eligible contract participant), with at least one credit or counterparty rating that is investment-grade, and, not one that is below investment-grade, from any nationally-recognized credit rating agency providing such a rating;
  4. a commodity pool that: 1) has total net assets exceeding \$500 million, and 2) is formed and operated by a person subject to regulation under the Commodity Exchange Act, or, a foreign person performing a similar role or function subject as such to foreign regulation (regardless of whether each investor in the commodity pool or the foreign person is itself an eligible contract participant), with at least one credit or counterparty rating that is investment-grade, and, not one that is below investment-grade, from any nationally-recognized credit rating agency providing such a rating;
  5. a corporation, partnership, proprietorship, organization, trust, or other entity that: 1) has total net assets exceeding \$500 million, and 2) the obligations of which under an agreement, contract, or transaction are guaranteed or otherwise supported by a letter of credit, support, or other agreement by an otherwise eligible contract participant, with at least one credit or counterparty rating that is investment-grade, and, not one that is below investment-grade, from any nationally-recognized credit rating agency providing such a rating;
  6. an employee benefit plan with total net assets exceeding \$500 million, that is also 1) subject to the Employee Retirement Income Security Act of 1974, or 2) a government employee benefit plan, or, a foreign person performing a similar role or function as above, subject as such to foreign regulation, whose credit or counterparty rating is investment-grade, with at least one credit or counterparty rating that is investment-grade, and, not one that is below investment-grade, from any nationally-recognized credit rating agency providing such a rating;
  7. a governmental entity, with discretionary assets exceeding \$500 million, identified as one of the following: 1) the United States, or one of the Fifty States of the United States, or a political subdivision of the United States, or a government department of the United States, 2) a Sovereign State recognized by the United States, or a political subdivision of that Sovereign State, 3) a multinational or supranational government entity, 4) an instrumentality, agency, or department of any of the above governmental entities, with at least one credit or counterparty rating that is investment-grade, and, not one that is below investment-grade, from any nationally-recognized credit rating agency providing such a rating;
  8. a broker or dealer with discretionary assets exceeding \$500 million, subject to regulation under the Securities Exchange Act of 1934, or a foreign person performing a similar role or function subject as such to foreign regulation, but in no case shall a broker or dealer who is a sole proprietorship or natural person be accepted, with at least one credit or counterparty rating that is investment-grade, and, not one that is below investment-grade, from any nationally-recognized credit rating agency providing such a rating;
  9. an investment bank holding company with discretionary assets exceeding \$500 million, subject to regulation under the Securities Exchange Act of 1934, or, a foreign person performing a similar role or function subject as such to foreign regulation, with at least one credit or counterparty rating that is investment-grade, and, not one that is below investment-grade, from any nationally-recognized credit rating agency providing such a rating;
  10. a Futures Commission Merchant (FCM) with total net assets exceeding \$500 million subject to regulation under the Commodity Exchange Act, or, a foreign person performing a similar role or function subject as such to foreign regulation, but in no case shall a Futures Commission Merchant who is a sole proprietorship or natural person be accepted.
- (ii) Member Firms shall have the exclusive right to create Trading Accounts that are eligible to place orders on The Actuarials Exchange and clear trades at The AE Clearinghouse, upon continued good-standing and compliance with the Quartet of legally-binding documents. Member Firms at The Actuarials Exchange are identical to



Member Firms at The AE Clearinghouse. Every Member Firm of Good-Standing at The Actuarials Exchange must remain a Member Firm of Good-Standing at The AE Clearinghouse.

- (iii) A Member Firm must be a qualified eligible contract participant who can act on behalf of a customer Trading Account, or act on behalf of its own Trading Account. A Member Firm must ensure that every Trading Account of a Member Firm is controlled by, or controlled on behalf of, a qualified eligible contract participant, as defined in these AE Rules. A Member Firm shall fully and frankly communicate to the Authorized Compliance Officer the name and direct contact information of any natural person who controls, or benefits from, the assets of each enumerated Trading Account, to The Actuarials Exchange or The AE Clearinghouse.
- (iv) Member Firm rights on The Actuarials Exchange shall be limited to executing trades through Trading Accounts on electronic facilities of The Actuarials Exchange, and clearing those trades through electronic facilities of The AE Clearinghouse, jointly called the **AE System**.
- (v) Member Firms may not obtain, or conspire to obtain, any equity interest in The Actuarials Exchange or in The AE Clearinghouse.
- (vi) Member Firms shall not gain any governance voting rights on any matter concerning the management, rules, or policies of The Actuarials Exchange or The AE Clearinghouse, but shall have the opportunity to review any proposed amendments to the Quartet of legally-binding documents before they shall be made binding, confer with officers of The Actuarials Exchange and AE Clearinghouse, and jointly determine whether such amendments are consistent with further Member Firm participation.
- (vii) Member Firm access to The Actuarials Exchange and The AE Clearinghouse may not be transferred, assigned, sold, or leased to any outside party, except as directed by the Authorized Compliance Officer, under circumstances provided for in the Quartet of legally-binding documents.
- (viii) All Trading Account positions of Member Firms shall be cleared at a Derivatives Clearing Organization, whose good-standing is duly recognized and fully regulated by the CFTC. Such a Derivatives Clearing Organization shall be referred to as The AE Clearinghouse.
- (ix) A Member Firm shall be financially and legally responsible for any and all activities, behaviors, and obligations at The Actuarials Exchange and The AE Clearinghouse undertaken by: 1) a Member Firm agent or employee; 2) an Authorized Trader controlling a proprietary or customer account, or; 3) an Authorized Support Person servicing a proprietary or customer account.
- (x) A Member Firm, Trading Account, Authorized Trader and Authorized Support Person shall recognize and protect the proprietary interest of The Actuarials Exchange and The AE Clearinghouse in its own market and clearing data, and shall distribute such market and clearing data only to Authorized Traders and Authorized Support Persons.
- (xi) A Member Firm is required to provide a Default Protection Facility to protect The AE Clearinghouse and other Member Firms from the prospect of Member Firm default. Last Amended AE Circular 005, Dec 22, 2004

#### **SECTION 4: AUTHORIZED TRADERS**

Authorized Traders shall be natural persons authorized to make trades on behalf of Trading Accounts under the domain of the Member Firm. A Member Firm shall fully and frankly communicate to the Authorized Compliance Officer the name and direct contact information of any and all Authorized Traders who may execute trades for Trading Accounts, and ensure that no Authorized Traders are engaged in operational, compliance, or money wire support activities with respect to Trading Accounts. No Authorized Trader shall engage in any direct communications with any employees or agents acting on behalf of The AE Clearinghouse.

#### **SECTION 5: AUTHORIZED SUPPORT PERSONS**

Authorized Support Persons shall be natural persons who are authorized to provide operational, compliance, or money wire support activities with respect to one or more Trading Accounts at the Member Firm, and who engage in direct communications with The AE Clearinghouse to support the clearing of trades at The Actuarials Exchange. A Member Firm shall fully and frankly communicate to the Authorized Compliance Officer the name and direct contact information of any and all Authorized Support Persons who may be so engaged.

## ARTICLE III

### APPLICATION, ADMISSION, AND APPROVAL

#### SECTION 1: MEMBER FIRM SIGNATURE FORMS

Prospective Member Firm shall receive from The Actuarials Exchange a set of **Member Firm Signature Forms** comprised of the following:

(i) **Member Firm Application**

Only qualified eligible contract participants (QECs) can apply to become a Member Firm on The Actuarials Exchange and The AE Clearinghouse. The Authorized Compliance Officer of The Actuarials Exchange and The AE Clearinghouse shall judge the suitability of the Member Firm applicant's eligibility with respect to:

1. Operational Capability. The applicant has adequate personnel, physical facilities, books and records, accounting systems, and internal procedures:
  - (a) to handle and perform transactions in Contracts and communicate with The Actuarials Exchange and The AE Clearinghouse every business day;
  - (b) to fulfill anticipated commitments to, and meet the operational requirements of, The Actuarials Exchange and The AE Clearinghouse, with necessary promptness and accuracy;
  - (c) to conform to any conditions and requirements that either The Actuarials Exchange or The AE Clearinghouse deems necessary for the protection of other Member Firms;
  - (d) to fulfill, within the time-frames established by The Actuarials Exchange and The AE Clearinghouse, operational testing requirements during mock trading and mock clearing.
2. Financial Responsibility. The applicant has sufficient financial resources to make anticipated margin payments, settlements, and other payments to the **AE Risk Pool** and other Member Firms and to satisfy all of its delivery and other financial obligations to the AE Risk Pool, in each case in a timely manner based on the applicant's projected usage of The AE Clearinghouse's facilities.
3. Business History. The applicant has an overall profitable business history of a minimum of six months and personnel with sufficient operational background and experience to conduct its business in a prudent and responsible manner.
4. Required Capital and Regulatory Requirements. The applicant is in evident compliance with the capital requirements and regulations of its industry.
5. Absence of Adverse Order. The applicant is not subject to an order of Statutory Disqualification issued by any federal, state, local or other regulatory authority anywhere in the world.
6. Absence of Disqualification Criteria. The applicant is not subject to:
  - (a) having been associated with any action or condition that, if such Person were a Member Firm, that would constitute an Event of Failed Obligation, Default, or any other non-performing action, that could give rise to a expulsion from The Actuarials Exchange, or from The AE Clearinghouse;
  - (b) having been responsible, for a) making a misstatement of a material fact or omitting to state a material fact to the Authorized Compliance Officer in connection with its Application to become a Member Firm, or b) fraudulent acts or willful violation of the Act, or of any applicable CFTC Regulation;
  - (c) having been convicted, at any time preceding the filing of the Application or at any time thereafter, of a) any criminal offense, or conspiracy to commit any criminal offence, involving the purchase, sale or delivery of any security, commodity future, or commodity option; b) any taking of a false oath, making of a fraudulent statement or a false report, bribery, perjury, or burglary; c) any type of larceny, theft, robbery, embezzlement, extortion, fraudulent conversion, fraudulent concealment, forgery, or

- misappropriation of funds; or d) any other criminal offense involving breach of fiduciary obligation, or, a breach of law arising out of the conduct of the applicant's business;
- (d) having been permanently or temporarily enjoined or prohibited by order, judgment or decree of any court or other governmental authority of competent jurisdiction from acting as, or as a person associated with or as an affiliated person or employee of, a broker, dealer, Futures Commission Merchant, investment company, advisor or underwriter, bank, trust company, fiduciary, insurance company or other financial institution, or from engaging in or continuing any conduct or practice in connection with any such activity, or in connection with the purchase, sale or delivery of any commodity future, commodity option or security, and the enforcement of such injunction or prohibition has not been stayed; or
  - (e) having been expelled or suspended from, or had its participation terminated by a) a national futures association, b) a Designated Contract Market, Derivatives Transaction Execution Facility, or Exempt Board of Trade, c) a Derivatives Clearing Organization, or other corporation that engages in clearance and settlement activities, d) a securities depository, or e) has been barred or suspended from being associated with any member of such a market, association, organization, corporation, or securities depository.

(ii) **Member Firm Agreement**

An applicant shall execute and deliver a Member Firm Agreement to the Chief Compliance Officer, whereby the applicant shall agree, among other matters:

1. To comply with, and be bound by, the **Quartet**, a set of four legally-binding documents governing The Actuarials Exchange, The AE Clearinghouse, and Member Firms: firstly, these AE Rules; secondly, The AE Clearinghouse Terms, Conditions, and Procedures; thirdly, the Rules of Products and Electronic Services (RoPES); and fourthly, the OmniGlossary, as they stand at the time of the Member Firm Agreement, and as they are amended from time to time;
2. To pay to, or deposit with, The AE Clearinghouse in a timely manner, all collaterals, margins, fees, and fines prescribed by The Actuarials Exchange and The AE Clearinghouse, as published in the latest numbered and dated official AE Circular.
3. That the answers of the Authorized Compliance Officer as to any questions arising with, or interpretations derived from, the Quartet of legally-binding documents, shall be legally binding upon the Member Firm;
4. To assume legal and financial responsibility for all positions in Contracts at The Actuarials Exchange undertaken by Trading Accounts under the domain of the Member Firm, cleared by The AE Clearinghouse;
5. That no improper or unauthorized action, or failure to act, of an employee, affiliate, agent, or representative of the applicant, shall excuse, or form a basis for the avoidance of, such Member Firm obligations hereunder, including on grounds that such persons lacked the power to bind the applicant, or, that such actions were *ultra vires*;
6. To abide with any commercially reasonable measures deemed by either The Actuarials Exchange and The AE Clearinghouse to be necessary in order to protect itself and its Member Firms, or, necessary to the public good;
7. To allow The AE Clearinghouse to have **first lien** and security interest on all collaterals, margins, fees, and fines, and any funds held at an Default Protection Facility in the name of the Member Firm, as security for all present obligations, and potential future obligations to The AE Clearinghouse;
8. To provide evidence of authority for conducting authorized business with The Actuarials Exchange, and AE Clearinghouse on each Business Day, by an appointment of a Designated Representative at a Designated Office, who is in charge of compliance of Member Firm activities at The Actuarials Exchange, and who is further authorized to create Trading Accounts, assign Authorized Traders to Trading Accounts, wire moneys to and from The AE Clearinghouse, and sign or authenticate reports, certificates, checks, agreements, receipts, orders, and other papers necessary for conducting business;
9. To allow The Actuarials Exchange, The AE Clearinghouse, and any operational agent of the Actuarials Exchange or The AE Clearinghouse, to confer and communicate, fully and frankly among each other, any and all necessary Member Firm, Trading Account, Authorized Trader, or Authorized Support Person

information on an as-needed basis, and to communicate with any authorized regulators, on an as-requested basis, in order to comply with applicable regulations, and enforce the respective Quartet of legally-binding documents.

**(iii) List of Senior Management**

The applicant shall supply contact information for each of the following officers that have authority over trading and support activities:

1. Executive Officer in charge of Actuarials Exchange trading activity,
2. a Financial Officer,
3. an Operational Officer,
4. a Compliance Officer,
5. a Technology Officer,
6. a Designated Representative, who shall be the primary operational contact that communicates with The Actuarials Exchange and The AE Clearinghouse, and who shall have the authority to take action on behalf of the Member Firm when contacted by The Actuarials Exchange and The AE Clearinghouse, and who shall be accessible during emergencies or automatic recourse procedures, as provided in this Quartet of legally-binding documents.

**(iv) Authorized Support Persons Application**

The Authorized Support Person Applicant shall assent to the Quartet of legally-binding documents, as amended from time to time, and shall pledge to abide by the same and all subsequent amendments, and by all regulations now existing, or adopted by The Actuarials Exchange and The AE Clearinghouse in the following way:

1. The Applicant authorizes The Actuarials Exchange and The AE Clearinghouse to verify all information provided, and to obtain information about Applicant from other Federal or State agencies or any other self regulatory organization.
2. The Applicant does hereby certify that (i) Applicant has not been subjected to statutory disqualification, and (ii) Applicant will inform The Actuarials Exchange and The AE Clearinghouse immediately upon notice that the Applicant has been recently subjected to statutory disqualification.
3. The Applicant agrees that the agreement with The Actuarials Exchange and The AE Clearinghouse will be made when The Actuarials Exchange and The AE Clearinghouse approves this application and, that all trading through The Actuarials Exchange will be subject to the Quartet of legally-binding documents, and that Applicant will act responsibly in transacting business on The Actuarials Exchange.
4. The Applicant acknowledges that Applicant has read, understands and agrees to the terms of this application. Applicant understands that if these responses are proven untrue, Applicant may be liable to revocation of support authorization. Last Amended AE Circular 005, Dec 22, 2004
5. The Applicant authorizes The Actuarials Exchange or The AE Clearinghouse to make available on request, to any regulatory agency with jurisdiction, any information it may have concerning Applicant and its Authorized Support Persons, and Applicant hereby releases The Actuarials Exchange and The AE Clearinghouse from any and all liability of whatsoever nature by reason of furnishing such information;

**(v) Authorized Trader Application**

The Authorized Trader Applicant shall assent to the Quartet of legally-binding documents, as amended from time to time, and shall pledge to abide by the same and all subsequent amendments, and by all regulations now existing, or adopted by The Actuarials Exchange and The AE Clearinghouse in the following way:

1. The Applicant authorizes The Actuarials Exchange and The AE Clearinghouse to verify all information provided, and to obtain information about Applicant from other Federal or State agencies or any other self-regulatory organization.

2. The Applicant does hereby certify that (i) Applicant has not been subjected to statutory disqualification, and (ii) Applicant will inform The Actuarials Exchange and The AE Clearinghouse immediately upon notice that the Applicant has been recently subjected to statutory disqualification.
3. The Applicant agrees that the agreement with The Actuarials Exchange and The AE Clearinghouse will be made when The Actuarials Exchange and The AE Clearinghouse approves this application and, that all trading through The Actuarials Exchange will be subject to the Quartet of legally-binding documents, and that Applicant will act responsibly in transacting business on the Actuarials Exchange.
4. The Applicant acknowledges that Applicant has read, understands and agrees to the terms of this application. Applicant understands that if these responses are proven untrue, Applicant may be liable to revocation of trading authorization.
5. The Applicant authorizes The Actuarials Exchange or The AE Clearinghouse to make available on request, to any regulatory agency with jurisdiction, any information it may have concerning Applicant and its Authorized Traders, and Applicant hereby releases The Actuarials Exchange and The AE Clearinghouse from any and all liability of whatsoever nature by reason of furnishing such information;

(vi) **Trading Account Self-Certified Application** Last Amended AE Circular 005, Dec 22, 2004

Each Trading Account application must be completed by the natural person primarily benefiting from the assets of the Member Firm Trading Account. The Trading Account Applicant shall assent to the Quartet of legally-binding documents, as amended from time to time, and shall pledge to abide by the same and all subsequent amendments, and by all regulations now existing, or adopted by The Actuarials Exchange and The AE Clearinghouse, and also self-certify that the Trading Account assets are controlled by, from at least one of the following:

1. a financial institution, with total net assets exceeding \$10 million;
2. an insurance company with total net assets exceeding \$10 million that is regulated by a State, or that is regulated by a foreign government and is subject to comparable regulation, as determined by the CFTC, including a regulated subsidiary or affiliate of such an insurance company;
3. an investment company with total net assets exceeding \$10 million subject to regulation under the Investment Company Act of 1940, or, a foreign person performing a similar role or function subject as such to foreign regulation (regardless of whether each investor in the investment company or the foreign person is itself an eligible contract participant);
4. a commodity pool that: 1) has total net assets exceeding \$10 million, and 2) is formed and operated by a person subject to regulation under the Commodity Exchange Act, or, a foreign person performing a similar role or function subject as such to foreign regulation (regardless of whether each investor in the commodity pool or the foreign person is itself an eligible contract participant);
5. a corporation, partnership, proprietorship, organization, trust, or other entity that: 1) has total net assets exceeding \$10 million, and 2) the obligations of which under an agreement, contract, or transaction are guaranteed or otherwise supported by a letter of credit, support, or other agreement by an otherwise eligible contract participant;
6. an employee benefit plan with total net assets exceeding \$10 million, that is also 1) subject to the Employee Retirement Income Security Act of 1974, or 2) a government employee benefit plan, or, a foreign person performing a similar role or function as above, subject as such to foreign regulation;
7. a governmental entity, with discretionary assets exceeding \$25 million, identified as one of the following: 1) the United States, or one of the Fifty States of the United States, or a political subdivision of the United States, or a government department of the United States, 2) a Sovereign State recognized by the United States, or a political subdivision of that Sovereign State, 3) a multinational or supranational government entity, 4) an instrumentality, agency, or department of any of the above governmental entities;
8. a broker or dealer with discretionary assets exceeding \$10 million, subject to regulation under the Securities Exchange Act of 1934, or a foreign person performing a similar role or function subject as such

to foreign regulation, but in no case shall a broker or dealer who is a sole proprietorship or natural person be accepted;

9. an investment bank holding company with discretionary assets exceeding \$10 million, subject to regulation under the Securities Exchange Act of 1934, or a foreign person performing a similar role or function subject as such to foreign regulation;
10. a Futures Commission Merchant with total net assets exceeding \$10 million subject to regulation under the Commodity Exchange Act, or, a foreign person performing a similar role or function subject as such to foreign regulation, but in no case shall a Futures Commission Merchant who is a sole proprietorship or natural person be accepted;
11. a person who the CFTC determines to be eligible in light of the financial or other qualifications of the person, and whose eligibility is directly communicated in writing by the CFTC to The Actuarials Exchange, and to The AE Clearinghouse.

**(vii) Consent of Arbitration**

The Trading Account Applicant must consent to the Arbitration standards set forth in Article VIII of these AE Rules.

**(viii) Member Firm Payment Bank Information**

The Member Firm Applicant shall provide relative account, routing, and contact information at the Payment Bank associated with the applying Member Firm, and the contact information of a Payment Bank officer who is responsible for money wiring events.

**(ix) Verification of Default Protection Facility**

The Member Firm Applicant shall verify that it has committed to a Default Protection Facility with an Arranger authorized by The AE Clearinghouse, as provided in the Quartet legally-binding documents.

Last Amended AE Circular 005, Dec 22, 2004

**(x) Technology Requirements**

The technology requirements listed on this form must be met by a Member Firm Applicant in order to access the Exchange.

**SECTION 2: ADMISSION AND APPROVAL**

- (i) Each Applicant to become a Member Firm shall complete and deliver to the Authorized Compliance Officer the completed Member Firm Signature Forms, with any necessary attachments requested therein. In conducting its review, the Authorized Compliance Officer may further:
  1. Examine the books, records and operational procedures, inspect the premises and request such additional documents or other information, of the Applicant, if any, *but only to the extent* relevant to the proposed usage of The Actuarials Exchange or AE Clearinghouse facilities;
  2. Contact any governmental or regulatory authority with oversight over, or responsibility for, such an Applicant. Member Firm hereby gives permission for The Actuarials Exchange and The AE Clearinghouse to contact any governmental or regulatory authority and allows hereby any such governmental or regulatory authority to release information or data as needed to The Actuarials Exchange and The AE Clearinghouse; or
  3. Take such other evidence or make such other inquiries as may be deemed advisable by The Actuarials Exchange, including testimony, to ascertain relevant facts bearing upon the Applicant's qualifications.
- (ii) After such due diligence is completed, the Authorized Compliance Officer shall approve or disapprove admission on behalf of The Actuarials Exchange and The AE Clearinghouse, and inform the Applicant of such a decision in a letter. A disapproved Applicant may appeal to the Chief Executive Officer of The Actuarials Exchange, whose decision to uphold or overturn the disapproval shall be final.
- (iii) Notwithstanding the foregoing, the Authorized Compliance Officer may deny an application, upon a determination that either The Actuarials Exchange or The AE Clearinghouse does not have adequate personnel,

space, data processing capacity or other operational capability at that time to perform its services for the Applicant without impairing the ability of The Actuarials Exchange or The AE Clearinghouse to provide services for its existing Member Firms. Such Applicants shall be reconsidered as promptly as the capabilities of The Actuarials Exchange or The AE Clearinghouse permit.



## ARTICLE IV

### OBLIGATIONS OF MEMBER FIRMS

#### SECTION 1: BOOKS, RECORDS, TESTIMONY, AND INFORMATION

- (i) Each Member Firm shall prepare and keep current all books, ledgers and records of Actuarials Exchange trading and The AE Clearinghouse activity in such forms as The Actuarials Exchange or The AE Clearinghouse may from time to time prescribe. Such books and records shall be made available to The Actuarials Exchange or to The AE Clearinghouse upon request.
- (ii) Each Member Firm hereby acknowledges and consents to the right of The Actuarials Exchange and The AE Clearinghouse to record conversations of Member Firms, Trading Accounts, Authorized Traders, and Authorized Support Persons, engaging with employees, officers, and agents of The Actuarials Exchange and of The AE Clearinghouse.
- (iii) Each Member Firm, Trading Account, Authorized Trader, or Authorized Support Person, or any director, partner, officer, employee, or any other person associated with a Member Firm shall agree to appear and testify before The Actuarials Exchange, The AE Clearinghouse, or before another exchange, clearinghouse, or self-regulatory organization, in connection with a regulatory investigation, exchange or clearing examination, or disciplinary proceeding, and shall not otherwise impede or delay such a procedure.

#### SECTION 2: CUSTOMER PROTECTION

##### (i) **Customer Account Restrictions**

A Member Firm may not solicit or accept from any Person an order for a Contract at The Actuarials Exchange, unless the Person has self-certified in a Trading Account application that the Person is a qualified eligible contract participant that can be a Trading Account, as defined in these AE Rules.

##### (ii) **Confirmations**

Each Member Firm that executes a trade at The Actuarials Exchange for a customer shall promptly furnish, or shall have furnished by the next business day, a confirmation of such trade to that customer, in such form as The Actuarials Exchange deems appropriate, indicating any Contracts bought or sold, the price, quantity, time of execution and other such information as the Authorized Compliance Officer may require.

##### (iii) **Customer Statements**

Each Member Firm shall promptly furnish, or shall have furnished by the end of a business month, an accurate and complete written statement of trading activity for that month, to each of its customers.

##### (iv) **Honesty and Integrity In Communications**

No Member Firm shall make any fraudulent or misleading communications relating to the purchase, sale, or clearing of any Actuarials Exchange Contract.

##### (v) **Responsibility for Customer Orders and Assets**

A Member Firm shall exercise due diligence in the handling and execution of customer orders and customer assets.

##### (vi) **System Security**

Each Member Firm shall be responsible for the security of its terminals having access to the AE System and shall be legally responsible for each order transmitted from any such terminals received by the AE System. Each Authorized Trader assigned an individual User Name and Password shall not disclose such unique identifiers to any other person, or permit any other person access to the AE System using such person's individual User Name and Password. Each individual shall be responsible for monitoring the security of one's own individual identifier. The

**Designated Representative** and **Member Firm Administrator** shall have the power to activate and de-activate any Authorized Trader access to the AE System.

### **SECTION 3: DISTRESSED MEMBER FIRM**

If a Member Firm has 1) been subjected to a voluntary or involuntary bankruptcy filing, 2) communicated its expectation to be subject to such a filing, 3) defaulted on obligations at another exchange or clearinghouse, 4) lost its investment-grade credit rating, 5) become insolvent, 6) lost its status as a qualified eligible contract participant, 7) lost its operational capabilities to continue conducting business, 8) exhibited other signs of imminent failure, 9) failed to fulfill material obligations to third parties, 10) engaged in activities that are deemed unlawful by the Chief Compliance Officer, or 11) activated a Late Payment trigger three (3) times in a twelve month period, then: officers of The AE Clearinghouse shall affirm these events with respect to materiality and then act in a commercially reasonable manner to follow the procedures set forth in The AE Clearinghouse Terms, Conditions, and Procedures for a **Distressed Member Firm**.

### **SECTION 4: ORDERLY VOLUNTARY TERMINATION OF MEMBER FIRM STATUS**

A Member Firm may communicate in writing to The Actuarials Exchange and The AE Clearinghouse its intention to terminate the Member Firm status and de-activate the Trading Accounts in an orderly function, as of a particular termination date, whose communications shall be at least five (5) business days prior to that termination date. The open positions of the Trading Accounts of the Member Firm shall be closed, or transferred to another Member Firm over a course of time agreeable to the Member Firm, The Actuarials Exchange, and The AE Clearinghouse. No Member Firm that has communicated the intention to terminate the Member Firm status shall retain the ability to open new positions on The Actuarials Exchange.

## ARTICLE V

### TRADING ENVIRONMENT

#### SECTION 1: CONTRACTS TRADED ON THE ACTUARIALS EXCHANGE

The Chief Executive Officer shall determine which Contracts for **financial instruments** shall be available for trading on The Actuarials Exchange. Rules that govern specific Contracts shall be provided in specified chapters of RoPES.

#### SECTION 2: DAYS AND HOURS OF THE EXCHANGE AND CLEARING SERVICES

Last Amended AE Circular 005, Dec 22, 2004

The Actuarials Exchange and The AE Clearinghouse shall be open on those days and for those hours listed in Chapter 1 of the RoPES.

#### SECTION 3: ACTIVITIES OF A MEMBER FIRM

- (i) Member Firms shall have the exclusive right to place orders on The Actuarials Exchange, and clear trades through The AE Clearinghouse, on behalf of Trading Accounts, upon continued Member Firm Good-Standing and compliance with the Quartet of legally-binding documents, and upon timely payment of all applicable collaterals, margins, fees, and fines to The AE Clearinghouse, as published in a numbered and dated official AE Circular.
- (ii) A Member Firm shall be financially and legally responsible for any and all activities, behaviors, and obligations at The Actuarials Exchange undertaken by: 1) a Member Firm agent or employee; 2) an Authorized Trader controlling a proprietary or customer account; or 3) an Authorized Support Person servicing a proprietary or customer account.

#### SECTION 4: DESIGNATED REPRESENTATIVE AND MEMBER FIRM ADMINISTRATOR

- (i) A Member Firm shall establish with The Actuarials Exchange a **Designated Representative**, who is an Authorized Support Person in charge of compliance for Member Firm activities at The Actuarials Exchange and The AE Clearinghouse, and who is available at all times on an emergency basis, for contacts with officers of those institutions.
- (ii) This Designated Representative shall appoint a **Member Firm Administrator**, who is an Authorized Support Person with the following enumerated powers at The Actuarials Exchange:
  - 1. Logon or logoff as Member Firm Administrator,
  - 2. Assign or un-assign Authorized Traders to Trading Accounts,
  - 3. Assign or un-assign financial instruments to Trading Accounts,
  - 4. Assign or un-assign financial instruments to Authorized Traders,
  - 5. Submit On-Exchange or Off-Exchange orders on a restricted basis,
  - 6. View any and all records relating to Member Firm activity at The Actuarials Exchange or The AE Clearinghouse. Last Amended AE Circular 005, Dec 22, 2004
- (iii) Other powers may be provided to the Member Firm Administrator by the Authorized Compliance Officer on an as-needed basis.

**SECTION 5: ACTIVITIES OF AN AUTHORIZED TRADER**

- (i) A Member Firm Administrator shall submit a request to the Chief of Operations to activate an Authorized Trader, whose signature form has been approved. The Authorized Trader shall be assigned to control one or more Trading Accounts, and for those Trading Accounts, have the following enumerated powers at The Actuarials Exchange:
1. Logon or logoff as an Authorized Trader,
  2. View assignments of available financial instruments,
  3. View summaries and details of the Available Balance,
  4. Place market, limit price, and Off-Market Block orders,
  5. Cancel those orders that have been placed and continue to persist,
  6. Submit a **Request For Price**,
  7. Respond to a submitted Request For Price,
  8. View any pending, filled, cancelled, rejected, or expired orders,
  9. Display the last trade, the current bid and ask, and the high and low trade of the day, for any selected Contract,
  10. Display graphics showing the prices and other indications for Contracts,
  11. View any and all records relating to assigned Trading Account activity.

**SECTION 6: ACTIVITIES OF AN AUTHORIZED SUPPORT PERSON**

- (i) A Member Firm Administrator shall submit a request to the Chief of Operations to activate an Authorized Support Person whose signature form has been approved. An Authorized Support Person shall be granted access to all Trading Accounts of the Member Firm and shall have the following enumerated powers at The AE Clearinghouse:
1. Logon or logoff as an Authorized Support Person,
  2. View assignments of available financial instruments,
  3. View summaries and details of the Available Balance,
  4. View any and all records relating to assigned Trading Account activity. Last Amended AE Circular 005, Dec 22, 2004

**SECTION 7: ACTIVITIES OF A MARKET MAKER**

A Market Maker has special responsibilities to provide limit orders of a certain minimum size with a maximum spread for a specified Contract or related set of Contracts at The Actuarials Exchange. Market Maker rights and responsibilities for each traded Contract shall be described in the applicable chapters of the RoPES.

**SECTION 8: TYPES OF ORDERS**

- (i) The Actuarials Exchange shall allow certain orders to be placed for Contracts:
1. **Limit price orders** of asks to sell, and bids to buy, for a certain number of lots, including Fill-and-Kill orders, limit price orders that are responses to Requests For Price, and strips of custom spreads as entered in to the AE System by Market Makers;
  2. **Market orders** of asks to sell, and bids to buy, for a certain number of lots, for release at the now, at the next opening, or at the next closing;
  3. **Off-Market Block Orders** of a certain quantity or size, which must be filled **all-or-none**, on a separate Off-Market venue on the AE System, easily accessed by all market participants.

## SECTION 9: REQUEST FOR PRICE (RFP)

A Trading Account may post a Request For Price (RFP), including an Off-Market RFP, from Trading Accounts, who, in response to the RFP may enter a **custom spread**, including Off-Market custom spreads, consisting of two limit price orders, one buy and one sell, of identical lot quantities. A custom spread may be either **good till cancelled** (GTC), or “good until” a specified elapsed time, after which the custom spread shall be automatically cancelled, if not filled. If one side of an RFP Response custom spread is filled, then the opposite side shall then be automatically cancelled.

## SECTION 10: ORDER ENTRY

Each Authorized Trader shall enter orders on behalf of each Trading Account via a Graphical User Interface (GUI) or an Application Programming Interface (API). The Actuarials Exchange shall maintain an electronic record of all entered orders.

## SECTION 11: ORDER CANCELLATION

On The Actuarials Exchange, limit price orders shall be deemed to be **persisting orders**, and continue to remain available for matching as a resident order on the AE System until filled, expired, or cancelled. Limit price orders shall be good-till-cancelled (GTC), and shall continue to reside on The AE System until later cancelled by: 1) an Authorized Trader or Authorized Support Person of a Member Firm; or 2) an Authorized Compliance Officer, under circumstances provided in the **Automatic Recourse Procedure**, unless the Contract has already expired. The Actuarials Exchange shall maintain an electronic record of all cancelled orders.

## SECTION 12: ORDER MATCHING

- (i) The Actuarials Exchange shall be an electronic exchange that matches orders by “pairing a single lot to a single lot,” from each side, where an eligible **incoming order** shall be immediately matched against the **resident order** on the other side having the best price, with the earliest order entered time-stamp.
- (ii) An incoming market order shall never be matched against another market order, but only against the best resident limit price orders on the other side. If no such resident limit price orders are available, then the incoming market order shall be immediately rejected from further matching consideration.

## SECTION 13: CONFIRMATION OF ORDER STATUS

Confirmation of orders, and order status, shall be accessible to the Authorized Traders of Trading Accounts submitting such orders, on the AE System for each Contract.

## SECTION 14: BUSTING OF EXECUTED TRADES

- (i) The price, quantity, and time-stamp of an executed trade shall be binding on the Trading Account of a Member Firm.
- (ii) Notwithstanding the above, an executed trade that is manifestly in error may be **busted**, but only between Member Firms in Good-Standing and only under the following busting procedures:
  1. An Authorized Trader recognizes the error in the executed trade, and desires the reversal of the trade with the consent of the anonymous Trading Account on the other side of the trade.
  2. An Authorized Support Person, and NOT an Authorized Trader, contacts the Authorized Compliance Officer, and asks that the Authorized Compliance Officer contact an appropriate Authorized Support

Person of the anonymous Member Firm with the Trading Account on the other side of the executed trade to make a **Plea for Reversal**.

3. The Plea for Reversal is communicated to the appropriate Authorized Support Person of the anonymous Member Firm, who shall communicate to the Authorized Compliance Officer of a response within one business day.
4. At all times, the Member Firms of the two sides of the executed transaction in pleading shall continue to satisfy their funding requirements.
5. At no time shall The Actuarials Exchange disclose the identity of any Member Firm, Trading Account, Authorized Trader, or Authorized Support Person or anyone engaged in the busting procedure.
6. If the Plea for Reversal is accepted by both Authorized Support Persons representing both Member Firms, then the trade shall be busted by entering the identical terms of the trade, reversing the terms of each side, through an Off-Market trade specially facilitated by The Actuarials Exchange. If the Plea for Reversal is denied, the terms of the trade shall stand.
7. The Actuarials Exchange may, from time to time, establish a “busted trade” fee or fine, as published in a numbered and dated official AE Circular.

## **SECTION 15: EMERGENCIES**

- (i) In an Emergency or threat of Emergency, the Chief Executive Officer of The Actuarials Exchange, the Chief Executive Officer of The AE Clearinghouse, or available successor officer thereof, may place into immediate effect a temporary emergency rule, as applicable, which may remain in effect for a prescribed time, such as:
  1. Limiting trading to liquidation of open positions only, in whole or in part;
  2. Extending, limiting, or changing hours of trading, or suspending trading completely;
  3. Modifying or suspending any provision of the AE Rules.
- (ii) The Authorized Compliance Officer shall communicate the promulgation of, or the lifting of, the temporary emergency rule, by providing a numbered and dated official AE Circular.

## **SECTION 16: AE SYSTEM LIMITATION OF LIABILITY**

EXCEPT AS OTHERWISE PROVIDED, AND EXCEPT IN INSTANCES WHERE THERE HAS BEEN A FINDING OF WILLFUL OR GROSSLY NEGLIGENT OFFICIAL MISCONDUCT, IN WHICH CASE THE PARTY FOUND TO HAVE ENGAGED IN SUCH CONDUCT CANNOT AVAIL ITSELF OF THE PROTECTIONS IN THIS RULE,

**NEITHER** THE ACTUARIALS EXCHANGE (INCLUDING ITS SUBSIDIARIES, AFFILIATES, AND ANY CONTRACTORS, OR SUB-CONTRACTORS PROVIDING SERVICES TO THE ACTUARIALS EXCHANGE), NOR MEMBER FIRMS, AUTHORIZED TRADERS, OTHER PERSONS ACTING AS AGENTS IN CAUSING ORDERS OF OTHERS TO BE ENTERED INTO THE AE SYSTEM, NOR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, OR EMPLOYEES,

**SHALL BE LIABLE** TO ANY PERSON REPRESENTING A MEMBER FIRM, INCLUDING BUT NOT LIMITED TO, A CUSTOMER, FOR ANY LOSSES, DAMAGES, COSTS, OR EXPENSES (INCLUDING, BUT NOT LIMITED TO, LOSS OF PROFITS, LOSS OF USE, OR DIRECT, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES), ARISING FROM:

- (i) ANY FAILURE OR MALFUNCTION, INCLUDING BUT NOT LIMITED TO ANY INABILITY TO ENTER OR CANCEL ORDERS, OF THE AE SYSTEM OR ANY ACTUARIALS EXCHANGE SERVICES OR FACILITIES USED TO SUPPORT THE AE SYSTEM, OR
- (ii) ANY FAULT IN DELIVERY, DELAY, OMISSION, SUSPENSION, INACCURACY OR TERMINATION, OR ANY OTHER CAUSE, IN CONNECTION WITH THE FURNISHING, PERFORMANCE, MAINTENANCE, USE OF, OR INABILITY TO, USE ALL OR ANY PART OF THE AE SYSTEM OR ANY ACTUARIALS EXCHANGE SERVICES OR FACILITIES USED TO SUPPORT THE AE SYSTEM.

**THE FOREGOING SHALL** APPLY REGARDLESS OF WHETHER A CLAIM ARISES IN CONTRACT, TORT, NEGLIGENCE, STRICT LIABILITY, OR OTHERWISE.

THERE ARE NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS PROVIDED BY THE ACTUARIALS EXCHANGE (INCLUDING ITS SUBSIDIARIES AND AFFILIATES), RELATING TO THE AE SYSTEM OR ANY ACTUARIALS EXCHANGE SERVICES OR FACILITIES USED TO SUPPORT THE AE SYSTEM, INCLUDING BUT NOT LIMITED TO WARRANTIES OF MERCHANTABILITY AND WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE OR USE.

**THE ACTUARIALS EXCHANGE, AN EXEMPT BOARD OF TRADE,** RESTRICTED TO ELIGIBLE CONTRACT PARTICIPANTS, TRADING ELIGIBLE EXCLUDED COMMODITIES, **HAS NO LEGAL OR REGULATORY REQUIREMENT** TO FURNISH TECHNOLOGY THAT:

- (i) STORES CFTC REQUIREMENTS AND REGULATIONS TO BE OBSERVED ON ANY BUY AND SELL TRANSACTION, OR DETERMINES THE VALIDITY OF EACH TRANSACTION AS PER CFTC REQUIREMENTS AND REGULATIONS OTHERWISE APPLICABLE IN REGULATED MARKETS,
- (ii) DETERMINES THE VALIDITY OF BIDS AND OFFERS, BEFORE THOSE BIDS AND OFFERS ARE PROVIDED TO ANY CONTRACT MARKET, OR ESTABLISHES REGULATORY CONSTRAINTS SO TO APPROVE ONLY THOSE BIDS AND OFFERS IN COMPLIANCE WITH SUCH CONSTRAINTS,
- (iii) ESTABLISHES ANY TYPE OF PREDETERMINED COMPLIANCE CRITERIA TO DETECT CERTAIN TRADE PRACTICES OR PATTERNS.

ANY DISPUTE ARISING OUT OF THE USE OF THE AE SYSTEM OR ACTUARIALS EXCHANGE SERVICES OR FACILITIES USED TO SUPPORT THE AE SYSTEM IN WHICH THE ACTUARIALS EXCHANGE (INCLUDING ITS SUBSIDIARIES AND AFFILIATES) OR ANY OF THEIR RESPECTIVE OFFICERS, DIRECTORS, OR EMPLOYEES IS A PARTY, SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ILLINOIS. THIS PROVISION SHALL IN NO WAY CREATE A CAUSE OF ACTION AND SHALL NOT AUTHORIZE AN ACTION THAT WOULD OTHERWISE BE PROHIBITED BY THE QUARTET OF LEGALLY-BINDING DOCUMENTS.

## ARTICLE VI

### AMENDMENTS

#### SECTION 1: AUTHORITY

The Chief Executive Officer of The Actuarials Exchange may modify these AE Rules, the RoPES, or the OmniGlossary, according to the following procedures:

1. The Chief Executive Officer shall publish and distribute a proposed change, and proposed effective date for such a change, to these AE Rules, the RoPES, or the OmniGlossary, in a numbered and dated AE Circular, which shall be distributed to the Authorized Representative of each Member Firm for a minimum of 10 business days of review and comment.
2. The Chief Executive Officer shall receive any comments from the Member Firms, and shall consider revisions and alternatives to the proposed change, and, if necessary, shall deliberate in conference with the Member Firms regarding such revisions and alternatives.
3. When determined to be final, the Chief Executive Officer shall publish and distribute the change, and effective date for such a change, in another numbered and dated official AE Circular.
4. The Chief Executive Officer shall ensure that any Member Firm that determines itself unable, unwilling, or unready to comply with the change by the effective date, can communicate in writing to The Actuarials Exchange and The AE Clearinghouse its intention to terminate the Member Firm status and de-activate the Trading Accounts in an orderly function, as of a particular termination date before the effective date, whose communications shall be at least five (5) business days prior to that termination date.
5. Any Member Firm that is unable, unwilling, or unready to comply with the change by the effective date, shall be observed by an official of The Actuarials Exchange as having lost its operational capabilities to continue conducting business, thereby activating a Distressed Member Firm trigger.
6. The dates of any amendments in these AE Rules, made after the first day of trading, shall be listed at the end of the amended paragraph and shall refer to the numbered and dated official AE Circular promulgating the change.



## ARTICLE VII

### DISCIPLINE

#### SECTION 1: ENFORCEMENT

- (i) It shall be the duty of the Authorized Compliance Officer to enforce Member Firm compliance with the Quartet of legally-binding documents. The Authorized Compliance Officer shall communicate to the Designated Representative of a Member Firm by phone, email, fax, or letter, any required changes in Member Firm, Trading Account, Authorized Trader, or Authorized Support Person behaviors.
- (ii) These communications shall be made known on a timely basis to the Chief Executive Officer of The Actuarials Exchange, and to the Chief Executive Officer of The AE Clearinghouse, who may propose changes to the Quartet of legally-binding documents to improve such Member Firm compliance.

#### SECTION 2: COMPLAINTS AND DISCIPLINE

- (i) Because the Actuarials Exchange is not a membership-owned Exchange, The Actuarials Exchange shall not conduct deliberative hearings controlled by Member Firms to determine the possible guilt or innocence of Persons associated with other Member Firms. Instead, any investigation, finding, and disciplinary process shall be controlled by the Chief Compliance Officer.
- (ii) This Complaint procedure shall govern Disputes between:
  - 1. The Actuarials Exchange or The AE Clearinghouse, regarding activities of a Member Firm;
  - 2. A Member Firm, regarding activities of The Actuarials Exchange or AE Clearinghouse;
  - 3. A Member Firm, regarding activities of at least one other Member Firm. Last Amended AE Circular 005, Dec 22, 2004
- (iii) After receiving a Complaint brought by, or against, a Member Firm, an Authorized Compliance Officer shall investigate the Complaint, and evaluate any relevant evidence which must be provided within five (5) business days of the date of record of the Complaint. The Authorized Compliance Officer shall then, as necessary, impose either a sanction or expulsion, fees, or fines against any offending Member Firm, and communicate in writing the facts of the investigation, judgment, and disciplinary process, to the Designated Representatives of any complaining or offending Member Firms, and, to the Chief Executive Officer of The Actuarials Exchange, and the Chief Executive Officer of The AE Clearinghouse.
- (iv) Any employee of a Member Firm, The Actuarials Exchange, or The AE Clearinghouse, may notify the Authorized Compliance Officer of actions that may constitute a violation of the Quartet of legally-binding documents, resulting in harm or potential harm to The Actuarials Exchange, The AE Clearinghouse, or to another Member Firm.
- (v) In the event of sanction or expulsion, or of a special application of fees, or fines, imposed by The Actuarials Exchange or The AE Clearinghouse, upon a Member Firm, that Member Firm may appeal to the President of The Actuarials Exchange or Chief Executive Officer of The AE Clearinghouse, as applicable, for relief. Based upon such review, the appeal may be affirmed, reversed, or modified, in whole or in part, the facts of which shall be communicated to the Member Firm in writing.
- (vi) In the event that the complaining party still feels that the Complaint has not been resolved to its satisfaction, it may appeal to the Chief Executive Officer of The Actuarials Exchange, who shall have sole decision-making authority in affirming, reversing, or modifying, in whole or in part, any prior decision.
- (vii) Nothing in this Article shall affect the right and duty of The Actuarials Exchange or The AE Clearinghouse to report to any regulatory authority about any suspicion, investigation, or judgment that a Member Firm is not in compliance with applicable laws or regulations.

## ARTICLE VIII

### ARBITRATION

#### SECTION 1: ARBITRATION

- (i) Any Appeal of Complaints where both parties are Member Firms, shall be submitted to The Actuarials Exchange within one calendar month of Discovery of such activities, and may further be submitted as a Claim by both parties to the American Arbitration Association, whose decision shall preclude either the Member Firm, The Actuarials Exchange, or The AE Clearinghouse from prosecuting or commencing any suit, action or proceeding against each other in any court of law afterwards, and shall govern all Disputes between parties to the Complaint procedure.
- (ii) Notwithstanding the foregoing, The Actuarials Exchange, The AE Clearinghouse, or a Member Firm may submit for the purposes of enforcement of the Quartet of legally-binding documents within one calendar month of Discovery of such alleged non-compliance activities, as a Claim to the American Arbitration Association (AAA), under Commercial Arbitration Rules, whose submission and decision shall preclude any Member Firm from prosecuting or commencing any suit, action or proceeding against any other Member Firm in any court of law afterwards.
- (iii) Any cases and controversies between a Member Firm and its own Trading Account, or between a Member Firm and an Authorized Trader or Authorized Support Person, shall not fall within the jurisdiction of the Quartet of legally-binding documents, but The AE Clearinghouse and The Actuarials Exchange shall provide any rightfully requested evidence to any internal investigation, outside arbitration, or administrative, civil, or criminal court proceeding, as requested by any party to the controversy.
- (iv) If the arbitration provisions contained within these AE Rules are held to be unenforceable or are otherwise not applicable then, with respect to any Dispute, each Party shall be deemed to irrevocably:
  - 1. Submit to the exclusive jurisdiction of the United States District Court and the courts of the State of Illinois located in the City of Chicago; and
  - 2. Waive any objection which it may have at any time to the laying of venue of any Dispute brought in any such court; and
  - 3. Waive any claim that such Dispute has been brought in an inconvenient forum; and
  - 4. Further waive the right to object, with respect to such Dispute, that such court does not have any jurisdiction over such Party.
- (v) THE ACTUARIALS EXCHANGE, THE AE CLEARINGHOUSE, EACH MEMBER FIRM, AND EACH TRADING ACCOUNT, SHALL BE DEEMED TO WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY DISPUTE.